

DRAFT

DEAR MR. WATSON,

I write to acknowledge the receipt of Mr. Cater's confidential letter No. C. 3063-358, dated 8th January 1924 communicating the principles that have now been formulated by the Government of India on the subject of the remission of tribute or subsidy paid by Indian States.

2. His Highness' Government understand that these principles are intended to be adopted as a general scheme for all Indian States that pay tribute or subsidy, and although Mr. Cater's letter makes a brief reference to Sir M. Kantaraj Urs' confidential letter No. Pol. 226 dated 22nd August 1919 in which a representation was made for the entire abolition of the Mysore subsidy on historic, economic as well as equitable grounds, no direct reply has been given to that representation. His Highness' Government feel much disappointed that the special grounds urged by them have not been taken into consideration and that it is proposed to deal with the Mysore claim under a scheme that does not take into account those special grounds but is intended to be applicable generally to all Indian States.

3. While thanking the Government of India and the Secretary of State for the recognition of the claim for relief in the matter of the subsidy, His Highness' Government feel that this recognition does not go far enough so far as the Mysore State is concerned. Moreover, it introduces a new principle of making the State liable to the extent of a percentage of its revenues for purposes of defence and thus involves a material modification of Article 4 of the Mysore Treaty under which the liability of the State for purposes of defence is limited to an annual payment of Rs. 35 lakhs. Even apart from this the scheme has certain inherent defects and drawbacks as I have attempted to explain in a separate note which accompanies this letter (Appendix A). It is not uniform in its incidence on the States coming under the arrangement; it operates to the disadvantage of States which develop their resources and thus acts as a check on progress. Moreover, States which spend less than 15 per cent of their revenues between their tribute and the cost of their troops are not required to come under the arrangement so that the scheme fails to remove the inequalities now existing in the contributions of Indian States for the defence of the Empire.

4. In the opinion of the Mysore Government the only satisfactory and lasting solution of the problem would be to do away altogether with the subsidies or tributes payable by the States and to devise other and less invidious means of contributions from them for Imperial purposes. The problem resolves itself into a question of Federal finance which will have to be faced, sooner or later, by the Imperial Government.

5. Such a solution will no doubt take time, but the financial position of Mysore is such that she cannot afford to wait for the settlement of this larger problem and must accept such immediate relief as can be given under the present scheme, inadequate as it is, without prejudice to her claim for a complete readjustment of her financial relations with the Government of India. Even under the principles now enunciated there is sufficient scope for the Government of India according, if they so desire, a really generous treatment to Mysore in this matter and I am accordingly to submit the following representation for the urgent and sympathetic consideration of the Government of India.

6. The Mysore subsidy has a special history of its own. In a separate Memorandum annexed to this letter (Appendix B) I have drawn attention to some of its special features by reference to historic records. Any readjustment that may now be considered should not lose sight of certain outstanding facts connected with its original levy. It was stipulated in 1799 that Mysore should pay the annual sum of Rs. 24½ lakhs for her defence and security. That was the price fixed for the protection of the State against internal disturbance and external aggression. In addition, the State was required to meet a reasonable share of the increased military expenditure that might have to be incurred in case of hostilities having to be undertaken against any other Power for the protection and defence of Mysore or of British India. This contingent liability was subsequently commuted to a fixed annual payment of Rs. 10½ lakhs. His Highness' Government cannot help feeling that the continued levy of Rs. 24½ lakhs "on account of the subsidiary force stationed in Mysore" is not justifiable, since the State has no longer any need for such special protection and has not for half a century requisitioned its employment. As regards the remaining Rs. 10½ lakhs, the Mysore Government feel that the whole of this amount should also, in fairness, be remitted, since the State is maintaining troops for the very purpose for which this additional sum is levied. The entire Military resources of the State have been, and will be, at the disposal of the British Government in the

event of hostilities having to be undertaken as recent experience has demonstrated. His Highness' Government, therefore, venture to think that they have a claim, on moral and equitable grounds for the entire abolition of the subsidy.

7. Mr. Cater's letter lays emphasis on certain important factors to be considered in connection with the question of remission of the subsidy, viz., "the past history of the State, the financial capacity and the character of the administration and the quality of the troops and of their value to the Imperial Government."

8. The Government of Mysore do not think it necessary to dwell at any length on these aspects of their case, for they venture to believe that every one of these factors is in their favour and the State is entitled to claim full benefit under them all.

9. The past history of Mysore under the present Hindu dynasty has been one of consistent friendliness and unswerving loyalty on the part of both the Ruler and his subjects to the Paramount power.

10. As regards the character of the Mysore administration I need only refer to the high encomiums bestowed upon it by successive Viceroys and by His Royal Highness the Prince of Wales who in a farewell message to His Highness the Maharaja at the conclusion of his memorable visit to the State was pleased to express his admiration of the efficiency of the administration.

11. As you are aware, owing to various causes, the finances of the State have been labouring under a heavy strain for some years past and in attempting to restore financial equilibrium for the past two years we have had to sacrifice efficiency to some extent. The standard of administration inherited from the British is high and the Government of Mysore are pledged to maintain it at that standard. To quote from the words of the Government of India Despatch to the Secretary of State in March 1880, "the Government of India have set up in Mysore" and have stipulated "for the maintenance of a Government completely organised in all its branches of a high and therefore expensive standard of efficiency." But unless the State can find more money for its vital and pressing needs under Education, Sanitation, Medical relief and Agriculture, it becomes impossible to maintain the administration at a high level of efficiency. The State has no elastic sources of revenue and while the Government have done every thing in their power to develop their resources and cut down avoidable expenditure, they must look for the further relief that they urgently stand in need of to the generous

application by the Government of India of the principles now enunciated by them for the remission of subsidy.

12. The quality of the troops maintained by the State and their value to the Imperial Government are also mentioned as among the chief factors to be considered in connection with the remission of subsidy. A brief reference may therefore be made to the military expenditure of the Mysore State as it has grown from the time the subsidy was definitely fixed at the figure of Rs. 35 lakhs per annum. Although this subsidy represents in money value the obligations of the Mysore State to contribute to the Imperial Government for both external and internal protection, Mysore spontaneously offered to maintain Imperial Service troops and has incurred in the maintenance of the Imperial Service Cavalry (now Mysore Lancers) and the Imperial Service Transport Corps (now Mysore Transport Corps) a total expenditure of Rs. 190 lakhs up to date and in the late war Mysore not only supplied troops, but bore the expenditure on account of their service outside the State (amounting to Rs. ~~13~~ ^{extra} lakhs) and incurred liability for an annual recurring expenditure of Rs. 25,000 on pension charges, and also made a cash contribution of Rs. 60 lakhs, being in fact, the first Indian State to offer a large money contribution and to set an example to other States. The troops maintained by the State have rendered meritorious service outside India and this has been recognised by the Government of India itself. The scheme of Military reorganisation now under active consideration will further improve their efficiency of the Mysore Troops and enhance their value for Imperial purposes.

13. The case of Mysore for remission is thus characterised by every favourable feature that can possibly exist for claiming the full benefit of the "greater liberality" which the principles of the present scheme permit.

14. The amount of remission of subsidy allowable under the present scheme is dependent upon the gross revenues of the State. It is stated in Mr. Cater's letter that the average gross revenue for the past five years will be taken into consideration for the purpose of calculating the remission. The remission to be allowed is for the future, and the cost of defence on which this calculation depends is also for the future. So the gross revenue on which it is based ought as far as possible to indicate the probable position in the near future and in view of this fact the average of the last two years, viz., 1921-22 and 1922-23 for which actuals are now available seems a better criterion than the average for the past five years.

besides the contribution of 12 lakhs to the Central Relief funds and 11 lakhs of military expenditure not claimed.

Further the Mysore Revenue Budget includes two items which can hardly be regarded as ordinary revenues. I refer to (1) the royalty on gold and other minerals and (2) revenues of Debt and Commercial services. The former, in view of the exhaustible nature of their sources, are in the nature of a permanent asset finally parted with and the income derived therefrom is essentially a *capital* receipt and not an ordinary item of revenue. The proceeds of royalty should be devoted to the construction of reproductive public works in replacement of the property disposed of, according to the principle that the patrimony of the State must not be impaired and this revenue should, therefore, be excluded from the calculation. As regards the second item, it cannot obviously be the intention to include under gross revenues the whole of the interest receipts and of the receipts under commercial heads without taking into account the corresponding interest payment and the charges on receipts from commercial concerns. It is only the net result of debt and commercial services which is really available for expenditure on service departments like the Military and the second item therefore has to be taken as *not* included in the calculation of the gross revenues. I attach two statements (Appendix C) showing the revenues of the past five years as well as the amounts realized under the two classes dealt with, to indicate the manner in which 15 per cent of the revenues may be calculated. On this basis the gross revenue of the State for the purpose of the present calculation stands at Rs. 266.70 lakhs.

15. The cost of the Military forces of the State under the existing organisation has been as follows during the past few years :—

			Rs.
Accounts, 1920-21	...	...	25,98,323
Accounts, 1921-22	...	...	28,40,806
Accounts, 1922-23	...	...	16,22,854
Budget, 1923-24	...	...	17,86,000

According to the scheme of reorganisation recently approved by the Government of India, the cost of the Military forces was estimated at Rs. 16.30 lakhs (though on a further examination it is found that the cost will really be about 18 lakhs). A proposal to further revise the scheme of reorganisation of the State forces in view of the present decision of the Government of India in the matter of the subsidy, has been separately submitted with the Chief Secretary's letter No. Pol. 873, dated 18th March 1924. The total cost of Military forces under this revised

scheme will amount to about Rs. 22 lakhs according to the details indicated below :—

		Rs.
Headquarters	...	75,000
Mysore Lancers	...	5,80,000
Mysore Horse	...	1,27,000
Infantry Battalion	...	3,27,000
Infantry Band	...	15,000
Second Line Infantry	...	3,00,000
Transport Corps	...	75,000
Kunigal Stud Farm	...	57,000
Military Stores	...	15,000
Palace Military	...	3,50,000
Superannuation charges	...	1,50,000
Military Works	...	1,50,000
Total	...	22,16,000

16. Taking 15 per cent of the gross revenue of the State at Rs. 40 lakhs and the Military expenditure at Rs. 22 lakhs, the subsidy should, on the strict terms of the scheme of remission now formulated, be reduced by Rs. 17 lakhs, but His Highness' Government pray that the Government of India will in fulfilment of their intention to show "greater liberality" in certain cases, and in view of all the special reasons existing in the case of Mysore as explained in the preceding paragraphs, be pleased to remit the entire subsidy of Rs. 35 lakhs. If however the British Government is not at present prepared to grant this full measure of relief, His Highness' Government would urge that the amount of remission may be fixed at Rs. 22 lakhs (or only Rs. 5 lakhs in excess of what would be admissible under the strict calculation) which represents the total Military expenditure of the State. Mysore has not only been paying the subsidy of Rs. 35 lakhs per annum fixed as the equivalent of all the military obligation of the State, but also at the same time maintaining troops fit and ear-marked for military service outside the State besides making other large contributions to meet the expenses of War. Even on the grounds upon which the Mysore subsidy was originally fixed, it is equitable to urge that the whole of the Military expenditure incurred by the Mysore State should be set off against the subsidy.

17. The State has been paying a cash subsidy for a century and a quarter. The annual payment was Rs. 24 lakhs for ninety-seven years from 1799 to 1896 and from the latter year it has been at the enhanced rate of Rs. 35 lakhs which is in addition to the cost of maintenance of a force fit for Imperial service outside. The Government of Mysore have been appealing for over thirty years for relief from this heavy burden and in appealing once

again to the generosity of the British Government they would earnestly plead that the application of the present scheme of remission to their case may be determined more on the important factors enumerated above which would justify the grant of the request for the entire abolition of the subsidy made in my predecessor's letter of July 1919. They hope that the British Government will view their request with its characteristic spirit of fairness and generosity.

18. In para 3 of Mr. Cater's letter, it is stated that "remissions granted will be subject to reconsideration in the event of any readjustment of the financial basis of the relations with the State in other respects." The exact contingency contemplated in respect of the readjustment of financial relations is not clear from the letter. His Highness' Government, however, believe that it has reference to the question of indirect contributions by the Indian States, in the form of customs duties and other item of revenue, to the Imperial Government. This question has been submitted for consideration in letter No. Pol. 1808, dated the 3rd March 1923 in connection with the points arising from the recommendations of the Fiscal Commission of 1921-23.

19. His Highness' Government would feel most grateful if you would be so good as to forward this representation to the Government of India with your support and urge, on His Highness' behalf, for a very early and favourable decision. His Highness confidently hopes that every consideration will be shown to the State and that it will at last be treated, in the words of Sir James Gordon (*vide* his Memorandum of 1881) "fairly, considerately and tenderly" by the British Government in regard to this question.

Yours sincerely,

Dewan.

THE HON'BLE,

MR. C. C. WATSON, C.I.E., I.C.S.,

Resident in Mysore,

BANGALORE.